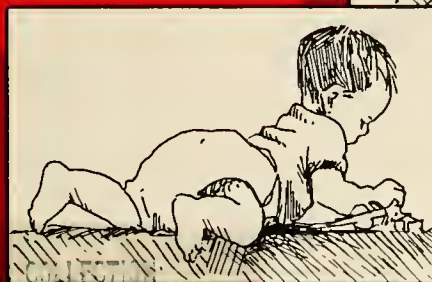


DEPENDENT CARE

Assistance Options

A Guide for
Montana
Employers



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DEPENDENT CARE ASSISTANCE OPTIONS

A Guide for Montana Employees

"Employees should not have to choose between being good workers and being good family members . . . the workplace must be flexible enough to accommodate change."

William E. Brock
Secretary of Labor
1987

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The Early Childhood Project is a statewide network committed to improving the quality and availability of programs and services to children and their families in Montana. This booklet was prepared by Billie Warford, Director. For further information on employer-assisted dependent care options, please contact:

MSU Early Childhood Project
Bozeman, Montana 59717
(406) 994-5005

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TABLE OF CONTENTS

The Need for Dependent Care Assistance	1
• Child Care	
• Elder Care	
• The Changing Workforce	
Benefits of Employer-Assisted Child Care	3
The Impact of Dependent Care Needs on Employees	3
• Dependent Care Responsibilities	
• How Employers Respond	
• How Employers Benefit	
Employer Concerns	6
Employer-Assisted Dependent Care Options	7
I. Providing Benefits and Workplace Flexibility to Assist Parents	8
A. Flexible Scheduling	
B. Salary Reduction	
C. Maternity and Paternity Leave	
D. Flexible Benefit Plans	
II. Offering Financial Assistance to Parents	10
A. Vendor Plans	
B. Voucher Plans	
III. Creating or Supporting Services	11
A. Resource and Referral Services	
B. Family Day Care System	
C. The On- or Near-Site Center	
D. Consortium Center	
IV. Assisting Families with Special Needs	14
A. Care for Sick Children	
B. Infant Care	
C. Care for Children with Special Needs	
D. School-Age Child Care	
E. Care for Dependent Elderly	
V. Contributing to Community Solutions	15
A. Financial and In-Kind Contributions	
B. Political Influence	
Tax Considerations	17
References	19
Resources	20



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THE NEED FOR DEPENDENT CARE ASSISTANCE

The need for dependent care continues to grow. Employers can play an important role in meeting the needs of employed parents and their families, assuring themselves of a more productive, more satisfied labor force.

This booklet describes:

- the implications for employers when employees do not have adequate dependent care;
- the current response of employers in the United States to family care needs; and
- detailed information on the many options available to employers who wish to provide some type of dependent care assistance to employees.

"Dependent care" refers to the care of a dependent, usually a child but often an elderly parent or other relative. Attention has focused on the increasing demand for child care by working parents, but the need for new and different forms of care for the elderly is also growing. Moreover, workers need different kinds of dependent care at different points in their lives and careers, so it is important that employee benefits take into account the varying needs workers may have over the long term.

Child Care

The U. S. child care system is a patchwork of parents' contributions, various types of employer assistance, government subsidies, and, increasingly, the public schools. Although precise statistics are not available, there is general agreement that the supply of affordable, quality child care in no way meets the needs of families today. As a result, many working parents must devise ad hoc child care arrangements which, not surprisingly, break down frequently. A recent survey commissioned by Fortune showed that parents do lose time from work to attend to family matters whether it be a sick child or school event. One major finding of the survey was that "problems with child care are the most significant predictors of absenteeism and unproductive time at work."

Elder Care

The amount of time workers spend caring for older parents is just now emerging as a workplace issue. This may be attributed first to the growing proportion of the elderly who are seventy-five years or older and second to the diminishing ability of family members, many of whom are now employed, to provide all aspects of the needed care. Currently about 80 % of the care received by the elderly is provided by family members--usually a spouse, a daughter, or a daughter-in-law.

A survey by Travelers Companies, a large insurance firm, found that approximately one out of every five employees over age 30 provides some care to an elderly parent, most often a widowed mother. These employees spend about ten hours per week providing care with 8% spending 35 hours or more each week. The majority of these care givers are women even when it is the husband's parent who needs care. Women workers are often caught between the generations by first arranging for the care of their children and then responsible for the care of their own or their spouse's parents (Work and Family Responsibilities: Achieving a Balance).

The Changing Workforce

"America has become a society in which everyone is expected to work, including women with young children. But many of society's institutions were designed during an era of male breadwinners and female homemakers. What is needed is a " . . . reform of the institutions and policies that govern the workplace to insure that women can participate fully in the economy and that men and women have the time and resources to invest in their children" (Workforce 2000: Work and Workers for the 21st Century, a study by the Hudson Institute for the U.S. Department of Labor).

Dramatic changes are taking place in the workforce, and the impact is being felt in millions of workplaces and homes around the country. A surge in the number of working women--mothers with small children, female heads of household, and wives in dual-worker families--is producing economic and social realignments.

In 1987 women made up 45% of the workforce. By the year 2000 they will account for nearly half of the workforce and for two-thirds of the labor force growth. With a shrinking labor pool and a thriving service sector economy, women's employment needs are becoming increasingly important in recruitment, productivity, and other bottom-line considerations.

Men are not immune to the problems associated with combining work and family life. Well over half of working men have wives working full or part time, and an estimated 25% of working parents have some responsibility for an aging relative.

Increasingly, employers are being called upon to respond to their employees' needs to balance work and family responsibilities. Benefit packages, work schedules, and recruitment plans are being revised to include an innovative array of policies and programs. Dependent care options range from on-site day care centers to voucher programs, flexible benefit plans, long-term care insurance, and parental leave policies. Alternatives to the standard work week include job sharing, voluntary reduced time, flextime, and work-at-home options. Many companies are examining their values and style and are responding in a variety of ways to ease work and family-life conflicts of their employees (Work and Family Resource Kit, U.S. Department of Labor, Women's Bureau).

Demographers predict that three-fifths of all women over age 16 will be at work in the year 2000. However, policies covering pay and benefits, absences, retirement, unemployment, and welfare assistance were designed at a time when men typically worked and women stayed home.

The United States is alone among all other industrialized countries in that working mothers and fathers rely on their own resources and on the good will of their employers, rather than government regulations and programs, to obtain health insurance coverage for their families, take time away from work for maternity leave, arrange child care, and meet the many other responsibilities they have as parents. The adequacy of "family policies and benefits" in the workplace is becoming increasingly important to workers when they evaluate employment opportunities and to employers who must compete for working parents in the tight labor market.

BENEFITS OF EMPLOYER-ASSISTED CHILD CARE

Research shows that investment in quality child care for working parents provides many quantifiable benefits to employers.

- In 1982, 95% of the corporations offering child care programs reported measurable benefits to their companies from these programs, including drops in absenteeism and tardiness and increases in productivity, job performance, and morale.
- Working parents with adequate child care arrangements report improved job performance. A 1987 survey found 70% of working mothers suffer stress, and 41% report absenteeism due to family responsibilities. Good child care arrangements improve their job performance and punctuality.
- Replacing a worker can be very costly: to recruit and train a highly skilled professional can cost a company from a few thousand dollars up to \$50,000. Park View Hospital Center in Nashville, Tennessee, reports their child care center costs \$50,000 per year compared with former recruiting campaigns that cost \$150,000 per year.
- Assisting working parents can enhance corporate image. The National Employer-Supported Child Care Project found that of the employers surveyed 85% reported that child care had a positive effect on public relations.

In sum, dependent care is good economic policy as well as essential family policy. A 1988 survey of Bozeman employers found a wide recognition of benefits accruing to the organization for providing dependent care assistance, including lower job turnover, lower absenteeism, improved employee attitudes toward the employer, improved employee work attitudes, attractiveness to new employees, improvement in community relations, and increased publicity.

THE IMPACT OF DEPENDENT CARE NEEDS ON EMPLOYEES

Affordability: For many families, particularly those with more than one young child, the costs of adequate child care cannot be supported on the household income available. Child care is the fourth largest budget item for a working family after food, housing, and taxes. Many families spend at least 10% of their income on child care, and the average single mother may spend up to one-third of her income on child care. The cost of child care prevents some families from using the most convenient or appropriate care. If there is more than one child, the cost may be so prohibitive that the children remain unsupervised for some part of the day.

While programs for dependent elderly are relatively new, costs for in-home care or care in someone else's home can be expensive.

Availability: Some kinds of dependent care are both expensive and difficult to provide and sometimes are simply unavailable in the community. Especially hard to find are:

- Child care for infants and toddlers
- Child care for sick children
- Child care for children with special needs
- School-age child care for "latch key" children
- Day care for elderly dependents

Families with these needs often adopt strategies which have a major impact not only on the well-being of the family but also on the effectiveness and productivity of the employed parent.

Quality: If parents are to exercise their appropriate responsibility for their children's well-being, it is imperative that they are able to select from reasonable alternatives. Both parents and providers want what is generally agreed to be the key ingredients of quality care: small groups with favorable staff/child ratios and stable, well-paid, well-trained staff. However, too many working families are unable to locate what they need and desire and to pay for it if they can find it. Under the pressures of cost and shortages, an increasing number of parents report that they are settling for the one kind of care they can get. Some parents must settle for no care at all, leaving their children unattended.

Options for care for the elderly dependent may include homemaker or health-aide care services, Meals on Wheels, or adult day care services. Depending on the sponsoring agency for these programs, the quality and costs are variable.

In summary, the main dependent care problem is that too many working families who want and need to purchase services cannot locate and/or afford these services. When working families do not have the services they need, there are both immediate and long-range social, economic, and psychological costs borne by families as well as by society and the economy.

Dependent Care Responsibilities

Dependent care responsibilities affect a large portion of the employee population:

- Of all women with children under age six, 56% are in the labor force. Most women who bear children during their careers return to work soon after their babies are born; more than half of all married women are back at work by the time their children are a year old.
- A survey of 8,121 workers in Oregon conducted by Portland State University found that the fathers and mothers whose children cared for themselves were the workers most affected on the job by missed days, lateness, interruptions, and early departures. In fact, the highest absenteeism rate for all employees was for men whose children were in self-care.

- An increasing number of working parents have elder care responsibilities. A study by the Travelers Insurance Company found that 28% of its employees provided care for a friend or relative aged 55 or older.

How Employers Respond

An employer's response may depend upon the company's size, industry, location, economic condition as well as other factors.

- A small company may pursue more flexible work policies while a larger company may invest in community services. Both small and large employers can pool their efforts in consortium arrangements.
- The motivations for small business involvement in child care are not that different from those of large companies, according to a study conducted by Berkeley Planning Associates for the Small Business Administration. Among the 24 firms studied, six sponsored day care centers and the others pursued the options common to large companies: flexible benefits, information and referral, flexible work hours, and contributions to community services.

An employer may spend up to a year planning and researching a comprehensive program tailored to the company's needs. The effort may involve:

- A task force;
- Employee survey;
- Focus groups;
- Supervisory interviews;
- Community needs assessments; and
- Analysis of what other companies are implementing.

An employer with a unionized workforce may decide to involve the union in some or all phases of the process from information gathering and needs assessment to decision making and implementation. Another employer may find that collective bargaining is a more effective route for addressing work and family needs.

Employers are concerned about equity, particularly for employees without dependents when instituting a work/family program or policy.

- Company surveys indicate that almost all employees--those with and without dependents--rate the possibility of a work/family program very highly. Once a program or policy has been introduced, companies report a highly favorable reaction from employees who feel better about a company that cares.



How Employers Benefit

In several national surveys on employer perceptions of the benefits of child care programs, conducted between 1978 and 1983, an overwhelming majority reported an increase in productivity, morale, and loyalty and a decrease in absenteeism, turnover, and tardiness. In a survey by the National Employer-Supported Child Care Project in 1984, 90% of the 178 companies responding said that the child care service their business offered had improved employee morale, 85% said their ability to recruit had been affected positively, and 85% noted more positive public relations.

Tax benefits are detailed in the section, "Tax Considerations."



EMPLOYER CONCERNS

The Bureau of National Affairs estimates that of six million U.S. employers only about 3,000 provide some form of child care support to their employees. The shortage of employer-assisted child care reflects a number of common concerns related to the provision of child care through the workplace. These concerns often become barriers to the implementation of child care programs. However, the responses presented here may assist employers in overcoming these barriers and allow for the provision of a needed and highly valued benefit to employees.

Equity: "A child care program will not benefit all of our employees equally." Most of the companies that have established child care programs have not found equity to be an issue. Employees whose own children are too old to benefit from such a program often say they wish they could have had such a service when their children were young. Employees who do not have children now welcome the program with a view to their future. Although other benefits may be available to all, they probably are not used by all. Employees who do need them use them. If equity has already been addressed through a flexible benefits plan, child care will fit in well.

Applicability: "Out of our total workforce, relatively few employees have young children. So why should we establish a program?" Child care is one area in which the depth, not the breadth, of the problem should be considered. For men and women who are struggling to find suitable child care, an employer-supported program will be of enormous value. Further, child care is one of the few benefits that is directly related to working (an employee would not need child care if she or he were not employed). Other benefits that are related to employment indirectly, if they are related at all, are already provided. Health insurance coverage is one example. People get sick or need surgery regardless of their employment status.

Liability: "What happens if a child is hurt in our company-supported child care program?" Fortunately, the risks of well-run child care programs are relatively small. The company may already have adequate liability insurance that would cover an on-premises child care center. A company contracting with an outside organization should require it to provide documentation of its liability coverage as prescribed by law.

Cost: "What will a child and dependent care program cost?" The answer depends entirely on the nature of the program provided. For instance, a child care resource and referral service provided by a community agency is relatively inexpensive whether contracted on a prepaid or fee-for-service basis. On the other hand, establishing a work-site child care center will require significant expense. Perhaps the underlying question is not "what will the child care cost" but "why should our company pay for this." The rationale for employer involvement in child care must be derived from employees' needs. If the need exists and the program will measurably benefit the company, then the question should not be "why" but "how" (adapted from "A Closer Look at Employer-Supported Child Care" by Roberta L. Bergman, Child Care Design Group, Dallas).

■ EMPLOYER-ASSISTED DEPENDENT CARE OPTIONS

One of the most prominent barriers to employer-assisted dependent care is the assumption that care must be provided through a child care center at the work site. Indeed, this is only one of many options. Selection of the appropriate care option for a specific employer depends on:

- The developing needs of the employer's labor force;
- Objectives of management in employee support, retention, and recruitment; and
- Current availability of community resources.

Within this framework employers may select from a broad range of options:

Providing Benefits and Workplace Flexibility to Assist Parents

Flexible Scheduling

Salary Reduction

Maternity and Paternity Leave

Flexible Benefits Plans

Offering Financial Assistance to Parents

Vendor Plans

Voucher Plans

Creating or Supporting Services

Resource and Referral Services

Family Day Care System

The On- or Near-Site Center

Consortium Center

Assisting Families with Special Needs

Care for Sick Children

Infant Care

Care for Children with Special Needs

School-Age Child Care

Care for Dependent Elderly

Sharing in Community Solutions

Financial and In-Kind Contributions

Political Influence

I. Providing Benefits and Workplace Flexibility To Assist Parents

A. Flexible Scheduling

Flexible scheduling allows parents as well as other employees a variety of options in scheduling their working day. Employers may allow employees to select arrival and departure times within specific limits. Employees may elect to use lunch hour or break time as work time and then arrive later or depart earlier. Employees may be permitted to utilize vacation or personal sick days as family care days (NOTE: As long as wage and hour regulations are not violated).

Advantages

- Offers low-cost option to companies.
- Offers benefit easily tailored to needs of individual employees.
- Benefits employees with needs other than child care.

Disadvantages

- Requires close company coordination so that minimal interference with work flow is incurred.
- Requires good internal communication system so that employees understand both benefits and requirements.

B. Salary Reduction

Salary reduction is a way to help employees use pretax dollars to pay for child care. An employee who earns \$30,000 and pays \$3,000 a year for child care can have his/her salary reduced to \$27,000; the employer will apply that \$3,000 to pay for child care expenses. Generally, employees must earn more than \$20,000 per year to benefit from salary reduction plans. This provision is gaining in popularity among small professional firms.

Advantages

- Offers employee savings because tax is not paid on the \$3,000 withheld for child care.
- Offers employer savings because amounts withheld for dependent care purposes are excluded from social security (FICA).
- Offers flexibility because program can adapt to fluctuations of employee needs.

Disadvantages

- Will not benefit the lower-paid employee.
- May incur high implementation costs although a small fee may be charged to cover the cost of administrating the program.
- Requires good internal communication system so that employees understand benefits and requirements of participation.



C. Maternity and Paternity Leave

Maternity and paternity benefits give new parents (upon a birth or an adoption) the opportunity to spend time at home without putting their job at risk. Such leaves are usually limited in length of time and may be paid or unpaid leaves. They respond to two related problems faced by young families: (1) Infant care is among the kinds of child care most difficult to locate, and (2) when no maternity and paternity benefits are available, new parents may rejoin the workforce when their efficiency and effectiveness are still hampered by the stress of the birth or adoption.

Advantages

- Offers benefit with relatively short-term implications for any given employee.
- Can have significant long-term impact on development of employees' careers.

Disadvantages

- May fluctuate in use among workers over time.
- Only some workers will ever become eligible for this benefit.

D. Flexible Benefit Plans

Flexible benefit plans allow employees to select the benefits best suited to their needs from a variety of options. Companies usually offer employees a core set of benefits such as medical, disability and life insurance, retirement, and vacation. In addition, employees may also be given "flexible credits"--based on their salary and tenure--which they may use to purchase other benefits of their choosing. For instance, employees who already have health benefits may use flexible credits for more vacation time or child care.

Flexible benefit plans have grown more popular since passage of the 1981 Economic Recovery Tax Act which created Section 129 of the Internal Revenue Code--the Dependent Care Assistance Plan (DCAP). In conjunction with Section 125 of the Internal Revenue Code which allows employers to offer a choice of benefits, child care became a convenient option within the growing number of flexible benefit plans; approximately 50% to 75% of the estimated 1,000 current plans include the dependent care option.



Advantages

- Reduces inequities of responding only to the needs of parents by satisfying other employees' needs as well.
- Entails low costs because the cost of child care can be shared by the employee.
- Offers flexibility so that the program can adapt to fluctuations in employee needs.
- Can control or reduce benefit costs.

Disadvantages

- May incur high implementation costs.
- May involve tax law uncertainties due to lack of final regulations on Section 125 and impending debates on tax reform.

II. Offering Financial Assistance to Parents

A. Vendor Plans

In a vendor arrangement the employer establishes contracts with local child or elder care programs, guaranteeing a certain number of slots by paying a reservation fee and a portion of the fees for employees using the programs. The subsidy is paid directly to the vendor upon verification of the employee's use of the program. Because profit-making centers often offer discounts to companies as a marketing tool and as a way to fill unused spaces, many companies have successfully negotiated reduced rates. In the most commonly found plan, vendors offer a 10% discount to employers, and the employer contributes 10% of the fees, resulting in a 20% reduction in care costs for employees. A typical savings under a vendor plan is \$500 a year.

Advantages

- Offers low cost to companies and reduced cost to employees.
- Requires little administrative responsibility.
- Offers accessibility if employees are clustered in different parts of town because slots can be reserved in different centers.
- Offers limited liability to company.
- Can expand or retrench with needs of employees.

Disadvantages

- Requires that employees use the specific vendor chosen.
- May result in employees being turned away if vendor is filled to capacity.
- May need to reserve slots a year at a time.
- May not meet wide range of employee needs.

B. Voucher Plans

Although arrangements can be made with specific providers, in a voucher agreement an employer subsidizes a portion of the employee's child care costs incurred at programs selected by the parent, although arrangements can be made with specific providers. Employees provide weekly verification of expenses from their child care providers; the

subsidy is added to the employee's net pay, or the company pays the provider directly. Most companies limit eligibility to certain income groups or ages of children as a way to control the cost of a voucher program. In addition, the employer may establish a maximum amount it will contribute to the employee's child care costs--an amount generally based on family income and/or the local cost of care. Employees typically benefit with a savings of \$750 to \$1,000 annually in their child care expenses.

Advantages

- Allows parents to choose their child and dependent care arrangement.
- Supports many community services rather than selecting among agencies.
- Limits administrative responsibility if the subsidy is administered through the payroll system.

Disadvantages

- Can be costly unless eligibility is limited.
- Limitations may cause equity problems.
- Will not support employees unless child and dependent care is available in the community.

III. Creating or Supporting Services

A. Resource and Referral Services

Employers may create or support services that discover and catalog the variety of child care services available to members of the labor force in a particular setting. Individual employees can then receive assistance in defining the kind of child and dependent care that best suits family needs and in discovering such child care placement in the community.

Advantages

- Offers relatively low cost for employer.
- Assists employees with a range of different child and dependent care needs.
- Assists families not only in finding child care but in effectively deciding among kinds of child care.
- Stimulates new sources of child care.

Disadvantages

- Depends on a supply of good care already available in the community.
- Does not assist employees with difficulties in affording care.

B. Family Day Care System

Family day care describes an arrangement in which parents leave children in the home of a person who provides child care for up to six children. Of all forms of out-of-home care, this is the one most often used by working parents. It is particularly popular with the parents of children younger than three years who prefer the homelike setting and small groups of children. It is also popular with the parents of two or more

children because it enables siblings to be cared for together, reducing the number of arrangements that parents must make. Employers can work with community groups or consultants to stimulate the supply of new providers for employees' children. As an alternative, this service could be undertaken in-house by the personnel department. An employer can even contract with a child care center to create a satellite system of family day care homes. The center then becomes responsible for providing training and administrative support for each individual family day care home and can provide backup support for the homes if a provider becomes ill.

Advantages

- Offers low start-up and maintenance costs.
- Suits parents who work odd-hour shifts because hours of family day care are flexible.
- Enables a greater number of employees to be served because homes may be located close to home, near work, or along the commuting path.

Disadvantages

- Poses the problem of high provider turnover although this problem can be minimized if providers are carefully selected and support services and/or benefits are available.
- Requires that homes be monitored to ensure high quality.
- May pose liability risks for the employer if homes are not registered with the Montana Department of Family Services.

C. The On- or Near-Site Center

An employer can develop a child care center on or near company premises through a variety of financial and management arrangements. The center can be managed as a department of the company where employees of the child care center are considered employees of the company, enabling child care staff to receive employee benefits. The center can be a nonprofit corporation with strong employee, employer, and community involvement. The center can be designed and operated by a nonprofit or for-profit agency hired by the employer. Or, the center can be a wholly owned, profit-making subsidiary of the company which can have significant tax advantages if operated at a loss.



Advantages

- Offers high community visibility.
- Can be an effective labor recruitment tool.
- Humanizes the workplace for all employees which may improve morale.
- Can adapt hours and programs to employees' needs.
- Enables parents to be close to their children.

Disadvantages

- May involve costly initial investments.
- Requires lengthy planning and start-up period.
- May not serve all employees with child care needs.
- May be difficult to predict use, and demand may fluctuate.
- May not be suitable for employees who commute long distances, use public transportation, or have children in public schools near their homes (for after school care).

D. Consortium Center

Employers can share the costs, risks, and benefits of establishing and operating a day care center by participating in a consortium. This alternative is suitable for downtown locations, industrial parks, shopping malls, and universities where a center can be developed and conveniently located for all workers. Usually each employer is assured of a certain number of slots in the center to be used by its employees; unused slots may be released (sold) to other employers or to community residents. Consortia work well for companies within the same industry or as a joint venture between employers and labor unions. They are particularly advantageous to small companies that may not be able to afford such an endeavor alone. Although relatively few consortia are in operation, the potential for this kind of arrangement is great since two-thirds of all employees work in small businesses.

Advantages

- Shares resources, liability, and costs among several employers.
- Enables employers with small workforces to participate.
- Can be a labor recruitment tool.
- Can adapt hours and programs to meet employees' needs.
- Enables parents to be close to their children.
- Pools employees to lessen the likelihood of underenrollment in the center.

Disadvantages

- May involve complicated and lengthy negotiations among participating companies.
- May result in some employees being turned away if combined labor pool is large.
- May not serve all employees with child care needs.
- May not be suitable for employees who commute long distances or use public transportation.

IV. Assisting Families with Special Needs

Some types of care for family dependents are often just not available or so expensive that the employee cannot afford quality care. However, many employers find that when costs of recruitment, training, and lost productivity are weighed it is more cost effective to assist in providing care for the child or dependent with special needs so that the parent can be at work.

A. Care for Sick Children

When their children become ill, working parents have little choice but to stay home and miss work because few child care programs are able to care for sick children. Some communities have established systems of emergency family day care homes, hospital-based day programs, or registered "sitter" programs in which trained people--either nurses, substitute teachers or senior citizens--provide care in the child's home. Companies can help to create such systems and/or buy into such systems for their employees through the use of vendor or voucher contracts.

B. Infant Care

It is particularly difficult to locate care for infants in many communities. Without infant care many workers return to work on a slower schedule than might otherwise be possible. Job sharing and part-time work are frequently cited by parents as helpful transition strategies after a birth or adoption. Some companies assist in paying for infant care through vendor or voucher contracts. Although an expensive service, the need for infant care is likely to be short-term compared to other child care needs.

C. Care for Children with Special Needs

Parents of special needs children (children with handicaps, learning difficulties, emotional disorders, etc.) may find it especially difficult to locate appropriate child care in their communities because such care often requires special staffing and equipment. Employers can assist parents of special needs children by providing flexible scheduling policies that enable the parent to accompany the child to medical treatment, by assisting the parent in accessing community resources, and by providing direct assistance for care through voucher or vendor contracts.

D. School-Age Child Care

School often begins after the parent starts work and ends before the parent has finished working, resulting in late arrivals and work interruptions to make sure children are safe. Thousands of children come home from school by themselves and stay home alone (or roam the neighborhood) until their parents return from work. Working parents also have particular difficulties at times when schools are not in session such as during school holidays and summers.

Employers can form partnerships with public schools to offer extended-day programs or work with day care centers or community-based agencies to organize after school or vacation drop-in programs. The company can establish a summer day camp for employees' children or set up week-long school vacation care programs by hiring a vacationing teacher or college student to take children on tours of their parents' work site and to local places of interest.

E. Care for Dependent Elderly

Options for care for the dependent elderly also vary. Some families can find and afford in-home care for elderly members; others find family care in someone else's home. For the elderly who stay in their own homes, there are a variety of homemaker or health-aide care services, either private firms or community programs. The Visiting Nurse Association often provides trained health care. Meals on Wheels delivers hot meals, and general-purpose community centers may also supply meals. Some areas have adult foster care in which families take in elderly persons or encourage and organize shared-living arrangements for older persons.

Adult day care centers often have the most advantages. Because they are community based, these centers allow the elderly person to remain in a familiar living arrangement and keep up social ties while relieving the family of the responsibility for continuous care; they provide trained staff but can also involve the centers' clients in their administration; they provide a central place for comprehensive services; they can reap the cost savings from group meals and other activities; and they can draw on a variety of funding sources. Unfortunately, the number and accessibility of such centers are still very limited.

V. Contributing to Community Solutions

A. Financial and In-Kind Contributions

Through corporate giving the private sector contributes 1% of its taxable income--more than \$3 billion a year--to the health, welfare, and education of people in its communities. Child care and other family services receive a share of this financial support. In Montana, the 1988 Legislature provided minimal financial support for child care resource and referral programs. Employers throughout Montana can contribute to and use these programs located in major population areas of the state.

In addition to financial support, child and dependent care programs can benefit from the donations of surplus goods, equipment, services, and volunteers. Company employees, encouraged to volunteer through release time or incentive programs, can provide invaluable legal, financial, or management expertise by serving as board members to local child and dependent care programs. Company employees can lend assistance and credibility to programs while at the same time learning more about the community and sharpening skills used at work.

Advantages

- Allows employer to diversify types of services supported.
- Allows employer to alter profile of support relatively easily to meet needs of current labor force.
- Enhances company and employee commitment to community.
- Develops leadership skills in employees.

Disadvantages

- Depends on available supply of "start-ups" or established services to support.

B. Political Influence

Historically, our government has operated on the premise that "what is good for General Motors is good for the country." If companies are convinced that adequate child care will improve productivity, they can use their political clout to advocate for child care legislation that will improve the affordability and quality of child care programs. By testifying before Congress and participating on mayoral and gubernatorial task forces on dependent care, employers can ensure that the view of the business community is heard as this country considers ways to meet dependent care needs of working parents.

Advantages

- Provides public relations for company.
- Improves quality of community life.





TAX CONSIDERATIONS

Montana Tax Credit

The 1988 Montana Legislature passed an initiative to stimulate business community involvement in meeting dependent care needs of their employees. Senate Bill 282 is: "An act providing a credit against Montana income taxes for amounts paid by an employer for dependent care assistance provided to or on behalf of an employee; amending Section 15-30-201, MCA; and providing an applicability date." It is effective in taxable years beginning after December 31, 1989.

Summary

This bill provides a credit to employers against Montana taxes otherwise due for dependent care assistance if furnished by registered and licensed day care providers within the state. Maximum allowable credit is 15% of the amount paid or incurred by the employer, not to exceed \$1,250 per year. Allowable deductions claimed are reduced by the dollar amount of the credit allowed/claimed to the \$1,250 maximum.

Exceptions (When amount paid does not qualify)

1. If amount paid or incurred was to an individual who does not qualify as noted above.
2. If amount paid or incurred is pursuant to a salary reduction plan.
3. If amount paid or incurred was for services not performed in the state.

The amount upon which the credit is based may not be included in the gross income of the employee.

Tax credit allowable but not used by the taxpayer in a particular year may be carried forward and offset against the taxpayer's tax liability for the next succeeding tax year. This carry-over can continue for five years, but not beyond the fifth year.

In an S corporation if tax credit relief is elected, the election may be made on behalf of the corporation's shareholders. A shareholder's credit must be computed using the shareholder's pro rata share of the corporation's costs that qualify for the credit.

Other Tax Considerations

Ordinary Business Expenses. Expenditures to provide child care services to employees are deductible as ordinary and necessary business expenses when they benefit the employer's business by reducing absenteeism and turnover.

Charitable Contributions. Businesses may contribute up to 10% of their taxable income to qualifying tax exempt organizations and deduct these contributions from taxable income.

Tax-Exempt Organizations. An employer may establish a day care center for employees' children as a tax exempt [501(c)(3)] organization. This has the advantage of qualifying an employer's contribution to the center as a charitable deduction. The facility, however, must be open to all children in the community. An employer may also establish a day care program by creating a Voluntary Employee Beneficiary Association [VEBA, 501(c)(9)]. The VEBA must be an independent entity, such as a corporation or trust, and must be controlled by its membership.

Amortization of Start-Up Expense. Start-up expenses incurred prior to the opening of a day care center may be amortized. Allowable costs include those related to advertising, employee training, and salaries paid to consultants as well as investigatory expenses related to the analysis of available facilities, products, and transportation.

Accelerated Cost Recovery System of Depreciation. The costs of acquiring, constructing, and rehabilitating property or purchasing equipment for a child care program can be deducted over a five-year period. This system of depreciation replaces the traditional Asset Depreciation Range (ADR) system for cost recovery of property used after 1980. The new system does not require the employer to make determination of such issues as useful life and salvage value of equipment.

Dependent Care Assistance Plans. Section 129 of the 1981 Economic Recovery Act established a new category of tax-free employee benefits entitled Dependent Care Assistance Plan or DCAP. This plan may be applied to any child care expenses for employees' children under age 15 or to care for disabled dependents or elderly relatives. The employer must prepare a written DCAP setting forth the eligibility requirements for the benefit and the method of payment and notify eligible employees of the availability and terms of the plan. Dependent care assistance plans may cover care in licensed day care centers, family day care homes, after-school programs, or care provided in the employee's own home. The amounts paid by the employer for dependent care purposes are excluded from social security (FICA).

Companies must provide the employee an annual written statement indicating the amounts paid or expenses incurred in providing child care assistance. Companies are prohibited from discriminating in favor of employees who are officers and owners or dependents of these employees. There are limits on the amounts of income that an employee may exclude for the purpose of dependent care, and subsidies or services received through a DCAP are not subject to the child care tax credit.

Because taxes and tax consequences are highly individual matters, it is recommended that employers discuss the tax implications of dependent care options with their legal advisers and tax accountants.



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RESOURCES

American Association of Retired Persons, 1909 K Street, N.W., Washington, DC 20049, (202) 872-4700.

Bureau of National Affairs, Inc., 1231 25th Street, N.W., Washington, DC 20037, (202) 452-4200.

The Conference Board, Work and Family Information Center, 845 Third Avenue, New York, NY 10022, (212) 759-0900.

Families and Work Institute, c/o Dana E. Friedman and Ellen Galinsky, 110 Summit Road, Port Washington, NY 11050.

Family Resource Coalition, Suite 1625, 230 North Michigan Avenue, Chicago, IL 60601, (312) 726-4750.

National Association for the Education of Young Children, 1834 Connecticut Avenue, N.W., Washington, DC 20009, (800) 424-2460.

National Federation of Independent Business, 600 Maryland Avenue, S.W., Washington, DC 20024, (202) 554-9000.

U.S. Department of Labor, Women's Bureau, 200 Constitution Avenue, N.W., Washington, DC 20210, (202) 523-6652.

Wellesley College Center for Research on Women, Wellesley College, Wellesley, MA 02181, (617) 431-1453.

Women's Bureau, U.S. Department of Labor, Clearinghouse on Work and Family, 200 Constitution Avenue, N.W., Washington, DC 20210, (202) 523-4486.

Dependent Care Assistance Options: A Guide for Montana Employers

Additional copies of this booklet may be obtained from the Early Childhood Project. Once the supply of the first printing is disseminated, additional copies will be available for a cost of \$3.00 per copy to cover the cost of printing and postage. For ordering information contact:

Early Childhood Project
Montana State University
Bozeman, Montana 59717
(406) 994-5005

